United Whelan Corporation

Annual Report

1963

UNITED WHELAN CORPORATION

Executive and General Offices: **902 Broadway, New York 10, N. Y.**

Branch Offices and Warehouses

82 39th Street, Brooklyn 32, N. Y.

239-243 N.W. 28th St., Miami 37, Fla.

910 West Jackson Blvd., Chicago 7, Ill.

606 South Main St., Los Angeles 14, Calif.

Board of Directors

Leo Bertisch

Charles Green

J. Raymond McGovern

William L. Pfeiffer

Ted M. Segal

Harry T. Silverman

Officers

Charles Green ..... *Chairman of the Board*

Leo Bertisch ..... *President*

Oscar C. Weitzberg ..... *Administrative Vice President*

Alvah K. Parent ..... *Vice President and Secretary*

Herman H. Goldstein ..... *Vice President*

Morton Bertisch ..... *Treasurer*

Charles J. Sewall ..... *Assistant Secretary and Assistant Treasurer*

Morris Savatsky ..... *Comptroller*

April 13, 1964

To the Stockholders of
UNITED WHELAN CORPORATION

There is submitted herewith the Annual Report of our Corporation for the year ended December 31, 1963.

The Corporation's Executive Offices, as well as the Purchasing, Merchandising and Advertising Departments, were moved, in May of 1963, to 902 Broadway, New York, N. Y.

In March of 1963, our second Charles One-Stop Shopping Center was opened in Raleigh, N. C. On February 3, 1964, we opened our third Charles One-Stop Shopping Center, of 80,000 square feet, in Winston-Salem, N. C. In addition to our own merchandise, we have an automotive center and a super market of approximately 20,000 square feet in the store.

In the early part of 1963, our Company prepared for a new, 1401 I. B. M. installation. The purpose of this new equipment was to speed up service to our new, large Charles One-Stop Shopping Centers. This type of program usually takes a year before it becomes fully and efficiently operative, requiring outside consultants, and is quite costly. However, we are certain that future benefits will justify the expense.

During 1963, we remodeled and re-fixtured several of our conventional drug stores where leases were favorable and sales and profit potentials were promising, and are in the midst of remodeling other stores in our chain at this writing.

In June of 1963, we opened two Pay-Less, discount drug stores, as pilots for future expansion.

As of this writing, we have sold our last operating drug store in California, subject to the landlord's approval of the purchaser.

All pre-opening expenses for our Charles One-Stop Shopping Centers in Raleigh, N. C., and Winston-Salem, N. C., and the costs incurred in moving our Executive Offices, and the installation of the I. B. M. 1401 equipment were charged to 1963 operations. These amounted to approximately $150,000.00 and are non-recurring.

During the first quarter of 1963, due to a newspaper strike, we were without newspaper advertising in the metropolitan New York area where more than 50% of our drug stores are located and this tended to affect our earnings for the year 1963. Due to the social problems in the southern part of our Country, our sales and profits in our Charles Stores were adversely affected, though we have always pursued a liberal policy in our dealings with our customers and employees.

During the year, we lost through resignation Mr. F. Philip Gottfried, Vice President and Comptroller, and Mr. John C. Hutsler, Vice President and General Manager of our Florida Operations. Mr. Gottfried's position was filled by Mr. Morris Savatsky as Corporation Comptroller.

Agreements have been signed providing for the merger of Consolidated Sun Ray, Inc. into our Corporation as the surviving corporation. Under said agreements the present outstanding stock of our Corporation will remain as outstanding stock of the surviving corporation. One share of the common stock of the surviving corporation will be issued for each 14 shares of the outstanding common stock of Consolidated Sun Ray, Inc., and 1½ shares of the common stock of the surviving corporation will be issued for each share of the outstanding preferred stock of Consolidated Sun Ray, Inc.

The agreements will be subject to the approval of the stockholders of both corporations. You will receive the full details of the proposed merger in the proxy material to be sent you.

In spite of our bad results for 1963, we are optimistic that 1964 will again be a profitable year as many of our trials, tribulations and expenses in our new ventures are behind us. We wish to thank our Stockholders, our employees and staff of executives for their patience and consideration.

This report is submitted on behalf of the Board of Directors.

Charles Green
Chairman of the Board

Leo Bertisch
President

BRIEF COMPARATIVE HIGHLIGHTS

	1963	1962
Sales and shipments to agents	$44,909,046	$46,448,096
Net income (loss) before Federal income taxes	(480,086)	507,088
Federal income taxes (refund)	(170,000)	160,000
Net income (loss)	(310,086)	347,088
Earnings (loss) per share (Common)	(25¢)	23¢
Dividends paid (Common)	—	45¢
Book value of Common Stock	$8.15	$8.39
Shares of Common Stock outstanding at end of year	1,355,722	1,371,127
Ratio of Current Assets to Current Liabilities	3.0 to 1	3.1 to 1
Units in operation:		
United Whelan stores	92	98
United Whelan agencies	355	403
Charles Stores	28	29

UNITED WHELAN CORPORATIO

COMPARATIVE CONSOL

As at December

ASSETS

	1963	1962
CURRENT ASSETS:		
Cash	$ 3,215,807	$ 3,304,582
Investments, at cost		850,706
Accounts and notes receivable, and merchandise shipments to agents, less reserves—Note C	1,145,101	966,033
Estimated refundable Federal income taxes—Note B	170,000	
Inventories of merchandise and supplies, at cost or market whichever is lower	8,294,601	8,520,780
Prepaid insurance, taxes and rent	268,681	294,331
TOTAL CURRENT ASSETS	13,094,190	13,936,432
OTHER ASSETS:		
Merchandise shipments to agents—Note C	123,725	173,575
Notes and accounts receivable due after one year, etc.	78,530	107,220
	202,255	280,795
FIXED ASSETS, at cost or less:		
Land, building and building improvements	114,599	114,599
Furniture, fixtures and equipment (includes approximately $2,000,000, on which depreciation provided is equal to asset)	5,265,142	4,967,751
	5,379,741	5,082,350
Less: Depreciation	3,432,926	3,420,966
	1,946,815	1,661,384
Improvements to leaseholds, less amortization	1,354,898	1,329,289
	3,301,713	2,990,673
DEFERRED CHARGES	88,044	115,667
	$16,686,202	$17,323,567

The accompanying notes are

AND SUBSIDIARY COMPANIES

ATED BALANCE SHEET
, 1963 and 1962

LIABILITIES

	1963	1962
CURRENT LIABILITIES:		
Accounts payable	$ 3,007,484	$ 2,829,334
Dividends payable		102,839
Taxes accrued and withheld, other than Federal income taxes	716,993	821,971
Accrued expenses and other liabilities	602,342	625,807
TOTAL CURRENT LIABILITIES	4,326,819	4,379,951
DEFERRED CREDIT—Note D	161,960	287,360
DEFERRED FEDERAL INCOME TAXES—Note B	142,780	142,780
CAPITAL STOCK AND SURPLUS:		
Capital Stock:		
Convertible Preferred Stock, par value $100.00 a share, $3.50 dividend cumulative (each share exchangeable for four shares of Common Stock):		
Authorized —50,000 shares		
Issued —10,467 shares	1,046,700	1,046,700
Common Stock, par value 30¢ a share:		
Authorized —3,000,000 shares		
Issued —2,307,388 shares	692,216	692,216
Capital Surplus	6,179,958	6,179,958
Earned Surplus	9,019,986	9,365,355
	16,938,860	17,284,229
Less: Treasury stock, at cost—443 shares and 340 shares Convertible Preferred Stock and 951,666 shares and 936,261 shares Common Stock	4,884,217	4,770,753
	12,054,643	12,513,476
PROPOSED MERGER—Note A		
LONG-TERM LEASES, CONTINGENCIES AND OTHER COMMENTS—Notes B and E		
	$16,686,202	$17,323,567

integral part of this statement.

UNITED WHELAN CORPORATION AND SUBSIDIARY COMPANIES

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

For the Years Ended December 31, 1963 and 1962

	1963	1962
Net sales and shipments to agents—Note C	$44,909,046	$46,448,096
Cost of goods sold, cost of shipments to agents and selling, general and administrative expenses, exclusive of depreciation and amortization—Note E	45,048,451	45,439,864
	(139,405)	1,008,232
Depreciation and amortization (exclusive of amounts applicable to real estate operations)	501,240	506,767
	(640,645)	501,465
Other income:		
Net gain on sales of securities	227,770	
Dividends and interest	32,590	46,402
Miscellaneous	46,441	80,359
	306,801	126,761
	(333,844)	628,226
Other deductions:		
Loss from real estate operations (including depreciation and amortization of $49,656 in 1963 and $50,856 in 1962)—Note E	94,031	112,497
Miscellaneous (including store pre-opening expenses of $100,254 in 1963 and $109,620 in 1962)	177,611	134,041
	271,642	246,538
	(605,486)	381,688
Amortization of excess of equity in net assets of a consolidated subsidiary company over investment therein—Note D	125,400	125,400
Net income (loss) before Federal income taxes	(480,086)	507,088
Estimated refund of 1961 Federal income taxes due to carryback of 1963 loss	(170,000)	
Estimated deferred Federal income taxes—Note B		142,780
Charge equivalent to reduction in Federal income taxes resulting from allowable investment tax credit		17,220
	(170,000)	160,000
Net income (loss)	(310,086)	347,088
Earned Surplus as at beginning of year	9,365,355	9,689,889
	9,055,269	10,036,977
Dividends on Convertible Preferred Stock	35,283	36,167
Dividends on Common Stock		635,455
	35,283	671,622
Earned Surplus as at end of year	$ 9,019,986	$ 9,365,355

Red figures are denoted by brackets.

The accompanying notes are an integral part of this statement.

UNITED WHELAN CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

As at December 31, 1963

Reference should be made to the previously issued Annual Report for the Accountants' Report and notes applicable to the consolidated financial statements as at December 31, 1962 and for the year then ended. Certain items in those statements have been reclassified for the purpose of comparison.

NOTE A—PROPOSED MERGER WITH CONSOLIDATED SUN RAY, INC.:

On April 8, 1964, the Corporation's Board of Directors authorized, subject to the approval of stockholders, a plan of merger with Consolidated Sun Ray, Inc., on the basis of one share of the Corporation's common stock for fourteen shares of common stock of Consolidated Sun Ray, Inc., and one and one-half shares of the Corporation's common stock for one share of preferred stock of Consolidated Sun Ray, Inc.

NOTE B—TAXES:

The Corporation is presently protesting the Internal Revenue Service's recently proposed disallowance of deductions taken in the Corporation's 1959, 1960 and 1961 consolidated Federal income tax returns for post-acquisition losses of Crawford Clothes, Inc. ("Crawford"), a former subsidiary. The proposed disallowance is based upon the contention of the Internal Revenue Service that the principal purpose of the acquisition of Crawford was tax evasion or avoidance. It is the opinion of the Corporation's counsel, based upon their discussions of the facts surrounding the acquisition with various officers and directors of the Corporation, and upon their examination of relevant documents and records made available to them, that tax evasion or avoidance was not the principal purpose of the acquisition and that the Corporation should be entitled to the deduction of the subsidiary's losses in such consolidated returns. Accordingly, no provision for the proposed tax deficiency (approximately $2,000,000), or interest thereon, has been made in the accompanying financial statements.

In 1963, the Corporation and certain of its subsidiaries adopted, for Federal income tax reporting purposes only, the new guideline lives permissible under Revenue Procedure 62-21. Principally as a result of the foregoing, depreciation shown in the Corporation's 1962 consolidated Federal income tax return was substantially greater than that shown on the books of the companies. Accordingly, deferred Federal income taxes in the amount of $142,780 have been provided for in the consolidated financial statements as at and for the year ended December 31, 1962.

The accompanying financial statements are subject to final determination of Federal, state and local taxes.

NOTE C—MERCHANDISE SHIPMENTS TO AGENTS:

In accordance with the Corporation's established policy, net sales and shipments to agents, as shown in the accompanying consolidated statement of income and earned surplus, include amounts representing merchandise shipments to certain agents who operate retail outlets, ownership of which merchandise, under the terms of the agency agreements, remains with the Corporation until the merchandise is sold by the agents. Amounts owing by such agents for merchandise sold as at December 31, 1963, and the accountability of such agents as at that date for unsold shipments of merchandise (other than initial inventory allowances) together total $493,749, which amount is included in the accompanying consolidated balance sheet under Current Assets in "Accounts and notes receivable, and merchandise shipments to agents, less reserves." The initial inventory allowances, for which agents are not required to make settlement until the termination of the agency, are included under Other Assets.

UNITED WHELAN CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS—Continued

As at December 31, 1963

NOTE D—DEFERRED CREDIT:

On April 15, 1960, the Corporation acquired all of the outstanding capital stock of Charles Stores Company, Incorporated. The excess of the underlying book equity as at the date of acquisition over the Corporation's investment therein (less costs applicable principally to closed stores) has been treated in the Corporation's consolidated financial statements as a "Deferred Credit." The latter is being credited to income ratably over five years from April 15, 1960, such period representing the approximate weighted average of the then remaining terms of the subsidiary's store leases.

NOTE E—LONG-TERM LEASES, CONTINGENCIES AND OTHER COMMENTS:

The Corporation and its subsidiaries in the ordinary course of business lease substantially all store properties. At December 31, 1963, there were 82 leases expiring more than three years after that date for which the aggregate minimum annual rentals were approximately $1,500,000, including $100,000 applicable to a discount store not opened as at that date. The majority of these leases provide for additional rentals based upon percentages of sales in excess of predetermined bases and upon other factors. Cost of goods sold, cost of shipments to agents and selling, general and administrative expenses include rent expense of $2,169,392 in 1963 and $2,161,274 in 1962, and loss from real estate operations includes rent expense of $242,822 in 1963 and $270,579 in 1962.

The Corporation is contingently liable with respect to guarantees of the obligations of others in the approximate amount of $150,000.

ACCOUNTANTS' REPORT

To the Stockholders
UNITED WHELAN CORPORATION
New York, N. Y.

We have examined the consolidated balance sheet of United Whelan Corporation and subsidiary companies as at December 31, 1963, and the related consolidated statement of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the outcome of the income tax matter referred to in the first paragraph of Note B (the treatment of which matter as reflected in the aforementioned financial statements and the related notes we nevertheless approve), the accompanying consolidated balance sheet and consolidated statement of income and earned surplus, together with the notes to financial statements, present fairly the consolidated financial position of United Whelan Corporation and subsidiary companies at December 31, 1963, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & CO.

New York, N. Y.
April 8, 1964

COUNSEL

ARANOW, BRODSKY, BOHLINGER, EINHORN & DANN, New York, N. Y.

TRANSFER AGENT

Convertible Preferred Stock and Common Stock
The Marine Midland Trust Company, New York, N. Y.

REGISTRAR

Convertible Preferred Stock and Common Stock
Chemical Bank New York Trust Company, New York, N. Y.